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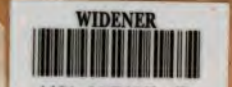

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THE WORLD'S MONEY PROBLEM.

BY

THEODORE MARBURG.

PART I.

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PREFACE.

Popular government calls for clear thinking and sound reasoning on the part of the people. In a period like the present, when the action of the people will be so fraught with big consequences to the welfare and honor of the country, there is especial need for the exercise of these faculties. It is important to recognize the true causes of the depression from which we have been suffering, and to realize fully that they are not of local origin and are not capable of local remedy. The inadequate explanations of our present condition generally offered, particularly the plea of overproduction, leave the farmer entirely without hope. He knows very well that South America, Australia, South Africa and India, to whose competition he is repeatedly told the present low prices of his product are solely due, have no intention of abandoning agriculture, and that, if this is the true explanation of his unhappy condition, nothing but public repudiation will save him from private ruin. The depression from which the world has been suffering has an international cause, which can be clearly defined. What is important is that this cause is rapidly disappearing and better times are close at hand.

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CHAPTER I.

CAUSE OF THE PRESENT DEPRESSION.

In the year XI of the French Revolution (1803) France opened her mints to the free coinage of silver at the ratio of 15½ of silver to 1 of gold. She had previously accepted silver as well as gold as legal tender, so that this was no departure from her former practise, but was simply, as is so often the case with good laws, a legal recognition of what already existed. In practice she was likewise already supported by the Latin countries, although the Latin Union, which made this support more definite, was not formed until 1865. The countries that organized the Latin Union were France, Belgium, Switzerland and Italy, Greece joining in 1867. The object of the union was intercirculation of the money of these several countries (a regulation which it was hoped would quicken commerce) and the maintenance of the precious metals at a parity, or international bimetallism.

International bimetallism does not imply a double standard. It provides for a single standard, but asserts that two metals may be used as the money basis, the one being simply measured in terms of the other. Under such an agreement gold remains the standard, and silver is given a fixed value in terms of gold. The object of having two metals is to give a larger basis to the monetary systems of the world, and to bring into play the theory of compensation, or substitution, on which bimetallism is founded. The theory presumes that if one can pay his debts in either gold or silver, any fluctuation in the ratio of the metals is immediately corrected by every one seeking the lower metal in which to pay his debts. No one will pay his debts in the higher of two legal tenders. Under such an agreement, therefore, if silver should fall below the legal ratio the demand for silver would cause it to rise, and the neglect of gold would cause it to fall, thus at once restoring the parity. The amount of silver in the world is roughly estimated as equal in coinage value at the United States mint to the amount of gold, and the employment of both metals under such a system doubles

the money basis, and checks, although it may not entirely prevent, an appreciation or depreciation of money. It matters little what the respective output of the metals may be, because the whole world will seek the one in which to pay its debts, and neglect the other according as the ratio may vary.

This is the theory. What do we find to have been the practice?

The free coinage of silver in France continued for nearly three-quarters of a century—from 1803 to 1873. During this period there was a fluctuation of less than one point from the legal ratio of the metals (it never reached 16½ to 1, and never fell to 14½ to 1), whilst there was a greater fluctuation in the output of the two metals than the world is likely to see again. Before the discovery of gold in California there was produced twice as much silver in money value as gold, whilst for the decade 1851 to 1860, following the discovery of gold in California and Australia and in the Ural Mountains, the average production of gold in money value was over three and one-half times as great as silver. During this decade the legal ratio was maintained and continued to be maintained until 1873, a

quarter of a century after these discoveries. The impartial use of the two metals by the Latin Union at a fixed ratio enabled the principle of substitution to be brought into play. It was this alone which kept up the legal ratio. There is no historic evidence to show that there existed any other force that did or could maintain it, and this fact constitutes an unanswerable argument in favor of the practicability of an international agreement with respect to the metals.

America gave no support to international bimetallism. We at first had a ratio of 15 to 1, which undervalued gold, and rapidly put us on a silver basis. In 1834 we virtually went over to a gold basis for the reason that the ratio was changed to 16 to 1, and silver was undervalued. The value of silver was approximately fixed by the practice of the Latin countries in Europe, and no one in America would take what at one period (1859) amounted to a dollar and five cents' worth of silver to the mint to have it coined and receive in exchange a dollar. America, therefore, cannot be regarded as having practiced bimetallism, nor supported the Latin Union. An especial tribute to the strength of international bimetallism

is the fact that it operated through all this period without the active support of four powerful commercial nations, namely, the United States, England, Austria and Germany. It was an overt act of hostility toward the system on the part of the last of these four countries which finally caused the system to fall. The war indemnity of five thousand million francs which it was stipulated that France should pay to Germany in gold or its equivalent, offered an opportunity to Germany for the adoption of the gold basis.

Germany had looked with envy upon England's commercial supremacy, and attributed it to the fact that England's monetary system was based upon gold, forgetting that it was England's insular position, always inviting her to go to sea, her navy, her mercantile marine and her commercial genius which contributed most largely to that supremacy. Germany abandoned the coinage of silver in 1871, and in July, 1873, specifically adopted the gold standard. The amount of silver which, in consequence of this action, poured into France, made it impossible for the French mint to continue the free coinage of silver at the ratio of 15½ to

1. America, about the same time, fortunately repealed her free coinage law of 16 to 1 before silver began to flow in upon her, that which would have inevitably resulted had she attempted to maintain the free coinage of silver after the system had been abandoned in Europe. The Latin countries were forced to follow the example of France, and international bimetallism accordingly ceased to exist. It was then, and not until then, that the monetary troubles of the world began. Bismarck is reported to have since acknowledged that this was one of the most serious mistakes that Germany has ever made, bringing about, as it did, such widespread disaster.

Previous to the present century there was no such interdependence of one nation upon another as we have to-day, and no such facilities for the international flow of the metals. During the development of all these, in the course of this century, up to 1873, we had the advantage of a system of international bimetallism, which enabled us to use both metals as the money basis, and when this system fell, evils of which the world has heretofore known nothing, gradually developed.

CHAPTER II.

APPRECIATION OF GOLD.

The enormous withdrawal of silver from the monetary basis of the continental countries consequent upon this action of Germany and the substitution of gold, tended to at once depreciate silver by throwing a quantity of it upon the market and to cause gold to appreciate by increasing the demand for it. Of far more significance is the fact that the fall of international bimetalism relegated silver to the position of a commodity, and, as such, its increased production has contributed largely to its fall in price. As above explained, had the international agreement continued this increased production could have affected the price of silver but very little, just as the price of gold was but little affected by the enormous production in the fifties. (At present the world's production of silver in coinage value at the United States Mint is about equal to the production of gold, whilst from

1801 to 1820, during which period the ratio of 15½ to 1 was well maintained, the average production of silver was over three times as great as that of gold.)

The whole strain being now thrown upon gold, it was natural that gold should rapidly appreciate. The appreciation of gold is arrived at by taking a long list of commodities, including silver, and comparing the gold price of these commodities in 1873, when silver was demonetized, with their price to-day. This appreciation is variously estimated at from 30 to 35 per cent.—appreciation of the money basis, of course, meaning a fall in the price of commodities. The contention that this fall is due to other causes will be discussed later on.

Evil Effects of Constantly Falling Prices.

When prices fall through an appreciation of the money standard the first effect is to discourage industry. The merchant at the end of the year may find that, although he has a larger stock, the value of each article has so depreciated, that instead of his operations showing him a profit, they show a loss. When the fall in prices is due to improved methods, the manufacturer reaps the advant-

age of these, and there is no discouragement to enterprise, whilst, when they are due to an appreciation of the money basis, his operations involve a loss for the reason that both his product and his stock of raw material are worth less, and wages, which make up in large part the cost of production, have failed to fall to a corresponding extent. Let a great cause, such as this, operate over the world for a series of years and its effect is most deadening. One of the principal functions of money is to measure a debt, not only for to-day, but through a period of years. In point of absolute justice the money basis should neither appreciate nor depreciate; but, if we must have one or the other, it is better to have a slowly depreciating standard because this would mean a gradual advance of prices leading to business activity.

A second evil resulting from the appreciation of gold, and one which has had far-reaching results, is the disturbance of business relations between gold-using countries and silver-using countries. This is admirably illustrated by an experience recited by Hucks Gibbs, an ex-director of the Bank of England. The engineering firm

of which he was a member was about to close a contract with the Mexican government for lighting the City of Mexico by electricity, when it occurred to them to ask in what kind of money they would be paid. Mexico replied: "In the money of our country, which is silver." This was not satisfactory to the English firm, because by the time the contract could be completed and the money reach England, silver might have fallen to such an extent that the affair, which was an important one, might net them a serious loss. Mexico, on her part, was unwilling to stipulate for payment in gold, because the only way in which she could get gold was to buy it with her silver, and when the time for payment arrived gold might have further appreciated to such an extent as to entirely alter the cost of the work. The contract was accordingly abandoned, and this is an example of what has been going on all over the world between gold and silver countries. It is what caused such a serious falling off for a considerable period in the foreign commerce of England, and what enabled India to take so much of the Chinese trade from England. India and China being both on a silver basis, the

Chinese and Indian merchants knew exactly what they were paying and what they were receiving for their merchandise. Individuals may profit by unsteady values, but commerce on the whole likes certainty, and, in the long run, is most healthy when risks are the smallest. The constant fall in prices and the unsettled condition of exchange between gold countries and silver countries are the two great factors in the depression from which the world has been suffering.

A third disastrous effect of an appreciation of the money basis is the frequent loss and ruin in which it involves the debtor. To take a specific case: in order to buy more land or make needed improvements, a farmer has executed a mortgage, the interest on which he can pay by raising 1,000 bushels of wheat. If the money basis appreciates thirty per cent. which will mean (other things being equal) a fall of thirty per cent. in the price of wheat, it will require 1,300 bushels of wheat to pay the interest on nominally the same debt. It is stated that the average life of a mortgage in the United States is not more than five years, but if prices are falling, and times in consequence are bad, the farmer will probably be forced

to renew the mortgage at the end of the five years, so that we must look upon the mortgage as something continuous through a much longer period.

This is what is causing the unrest among the agricultural classes in America, and has been an important factor, though not the principal one, in the agricultural depression pervading Europe. Countries like Ireland, which are almost wholly dependent upon agriculture, and which have refused or found it difficult to gather to themselves the full benefit of the great modern industrial development by embarking in commerce and manufactures, have felt this depression most of all.

In England much land has gone out of cultivation and been given over to pasture. This is itself unprofitable, and it has lately been suggested that the land be planted with forest trees with the hope of future revenue from the wood. We hear the same cry in France, where the farmer is already protected by a heavy duty on wheat, and in Germany where there is a strong movement for the protection of agricultural interests. The fall in the rental value of agricultural lands in Europe and America tells a sad tale.

The agricultural depression in Europe is due primarily to the opening up of America, North and South, South Africa and Australia, and to the cultivation of wheat in India. It has, however, been made more acute by the appreciation of the money standard, and this is proven by the fact that our own Western farmer who is supposed to have brought much of the trouble upon his European fellow, and who should be able, if any one is, to produce at a profit, finds it difficult to do so. Farming in silver countries is still profitable, because such countries have felt the weight of the appreciation of gold only in the effect it has had on the prosperity of their customers, the gold countries, and in the increased burden of their gold debt.

The Situation To-day.

As the cause of the depression was the appreciation of the world's money basis, it was reasonable to suppose that the increased production of gold in America, Australia and Russia, stimulated by low wages, and the heavy yield of the South African mines, would bring us better times. The annual production of gold is now about two hun-

dred million dollars, which is one-fifteenth of the total production of gold from the time America was discovered until the discovery of gold in California, a period of three hundred and fifty years. The opinion of the majority of speakers at a meeting of French economists in Paris, in January, 1895, was that the increased production of gold would have no immediate effect upon prices. It was pointed out that many of the European monetary systems which were based upon gold were thirsting for the metal, and that the increase in its production would be absorbed by a much needed increase in their gold reserves; that after this process had been going on for a time a continued heavy yield of gold would then have a steadying effect upon prices. This is precisely what has happened. Austria has recently placed its monetary system on a gold basis, and Russia is preparing to do the same, having locked away upwards of five hundred million dollars of gold. There have been important increases in the gold reserves of the leading European banks, and the production of gold is now beginning to tell on prices. Within the last year we have seen a steadying of prices, and in even a flurry in

several commodities. In order to enjoy a general renewal of business activity it is only necessary that prices should cease to fall.

Exceptional conditions surround us here; but what do we find to be the situation abroad? As recently as 1894 England was still suffering from a phenominally long depression; her commerce had been declining and her revenue falling off. People were really beginning to fear for her future. Continental Europe was, however, suffering a like depression. England has now quite recovered, her imports and exports for the year being enormous, and her budget showing an unexpected surplus. Germany's foreign commerce for the fiscal year of 1895–96, was the largest in the course of her history, and her internal commerce was excellent. Late advices from Australia, which country has suffered more than any of us from the monetary disturbance, indicate a revival of business there.

The United States would have already enjoyed a return of prosperity but for certain definite causes, chief among them our defective monetary system, the unprofitableness of American investments—owing partly to

a mistaken attitude of the people toward corporations—and the distressing movement for local bimetallism. Before discussing these it is important to establish the various propositions laid down above, and to examine the explanations commonly offered for the present depression.

Truth is always the best weapon against error. There is still widespread confusion in the minds of the people on the subject of bimetallism; they fail to distinguish between international bimetallism, the practicability and advantages of which are capable of scientific demonstration and are supported by the facts of history, and local bimetallism which, at the ratio proposed, means silver monometallism and repudiation.

The principles of finance are so subtle that it requires faithful application to master them. Whilst in the present movement for free silver there are, no doubt, numbers who are moving with their eyes open and whose motives can be subject to no other interpretation than that they are dishonest, there is likewise a large class who believe that the parity can be maintained and who, therefore, do not understand the full significance of the movement. Moreover, the people are

constantly told that the present state of affairs is due to causes which they know are not sufficient to produce it. They have come to a correct conclusion in assuming that the present protracted period of depression finds its true explanation in the monetary disturbance. It remains to point out to them that this was a great international question beyond our control, that our action as a nation had nothing to do with bringing it about, and that a great international cause is operating to correct it. Foolish action on our part may retard its return here, may place us under certain permanent disadvantages and leave a stain upon us, which in the future, when questions assume their true proportions, we might be willing to give our hearts' blood to wash away; but, as nothing which the country could have done would have prevented the advent of hard times, so nothing which we may do can prevent the ultimate return of prosperity to a nation on the whole so moral, ingenious and industrious as the American nation.

CHAPTER III.

IMPORTANCE OF A GOOD MONEY SUPPLY.

It is curious what a far-reaching effect the money supply of the world has upon its well-being. Just before the discovery of America the lack of the precious metals brought untold evils, social, political and economic, upon the whole of Europe. The quantity which America shortly afterwards supplied caused a tide of prosperity which, among other things, had such an important result as hastening the fall of the feudal system. Poverty had kept the people down, and when the new life which America sent them in the form of a new money supply began to course through their veins, the stature of the man straighened and the rotten fetters of the system began to snap. In France, in the course of the following century, feudalism rapidly disintegrated until in the time of Richelieu it ceased to exist as a political system.

In the present century before the California discoveries the world was feeling keenly the scarcity of the money metals, this in despite of the bimetallism prevailing on the continent of Europe, which enabled France, for example, without abandoning her monetary system, to let England and other countries have nearly all her gold. In 1838 only five per cent. of her circulation, including the reserves in the Bank of France, were in gold.

The yield of gold in the fifties brought needed relief and great prosperity. For England, which was a gold country, it was very timely indeed, according to some authorities saving her commercial prosperity. So, again, the South African discoveries to-day are as water to the thristing. The disasters we have suffered this time, owing to causes which are now plain, are of such a magnitude as to constitute a new experience.

The secret of our dependence on the supply of the money metals is that an ample supply of sound money stimulates industry, and, after all, it is the continual employment of human hands and heads which gives the world its wealth. In order to

appreciate this, one need only consider how large a factor in the cost of production are wages, and to apply this to a specific case, such as railway construction. Here the greater part of the expense is wages paid for making and laying the road. Before the completion of the railway the amount thus disbursed in wages has nearly all been consumed in the maintenance of the laborer; only a small percentage has gone into the savings bank and become capital. The significant thing is that these men must continue to consume, though not so much, whether in a useful occupation or not; so that in times of business activity we have such a grand result as a railway for a given amount of food and clothing, and in hard times we have a large proportion of this amount consumed without getting anything in return. This fact leads one to believe that the evil effects of a great business depression can be somewhat lessened, and permanent results secured, by the government at such times embarking in liberal public works. To recognize any such thing as a right to employment is impracticable, and to attempt it by offering work to all the unemployed would be disastrous. It

would inevitably draw recruits to the ranks of the unemployed by taking away from men the necessity to maintain themselves in private industry. The principle is not that. It has nothing to do with sentiment. It is simply what reason would dictate, viz.: that it is better to turn idle men, who must continue to consume, to some useful work and leave to our children a worthy public monument in the nature of a road or bridge or noble building, than to permit consumption to go on without any return. With the advent of better times such work would be discontinued as speedily as possible, so as not to interfere with normal industrial conditions.

In order to fully appreciate the increase in the demand for money, we must bear in mind the improvement in the people's standard of living.

Our century will probably live in history for its inventions as the renaissance for the revival of letters or the Age of Pericles for its intellectual brilliancy. This means an enormous increase in consumption and in trade. The needs of each individual in a multiplied population have themselves multiplied; this is why the money basis is still

short notwithstanding the great increase in the production of gold. The assumption that the use of credits supplants the need for money to the full extent of the credit is unsound. Every credit is really a credit of material wealth and can be brought into play only through the medium of money. If a cotton manufacturer borrows $10,000 with which to buy cotton, that of which the lender really gives him the use for a certain period is the cotton, but the transaction is made through a bank credit, and all such credits are at bottom based upon money. If the currency of the country in which the transaction takes place has a gold or silver basis, it is the actual amount of gold or silver in the banks or in the government vaults on which the credit must ultimately depend. The withdrawal of a given amount of this gold or silver for use in the arts destroys many times that amount of credit. In addition to this metallic reserve as a basis for credits is the fact that in retail trade there is generally an actual passing of money. The needs of a higher civilization call for a great increase in the supply of money. This is amply illustrated by contemporary facts, and even within the boundaries of a single country.

CHAPTER IV.

EXAMINATION OF ARGUMENTS COMMONLY OFFERED AS EXPLAINING THE DEPRESSION.

Attention is frequently called to the great increase in the production of cereals and of manufactures. In attributing the fall of prices to this cause one overlooks the important increase of population in the leading countries of the world, and the even more important improvement in their well-being just referred to.

Better machinery and methods in manufacture and in agriculture, and the revolution in transportation are likewise commonly referred to as explaining the fall in prices.

These have, no doubt, been factors in the situation, but are not the basic cause. If we found a few articles lower in price we might reasonably attribute it to overproduction and a cheapening of processes, but when we find the price of a large percentage of all the articles in which the

world commonly trades lower in price, it is safe to assert that there has been a change in the thing in which they are measured, namely, in the money basis.

Universal overproduction is a contradiction in terms; if every one had an abundance of everything there would be plenty to swap, and the result would be great prosperity. The assertion that all prices are lower because of cheapened production is likewise a contradiction because we cannot have everything cheaper in terms of everything else. From time to time the cost of production of an article of course changes in relation to the cost of production of other articles, and this is expressed in a change of price, but when we find nearly the whole list fallen in price it can mean little else than that the money basis has changed.

Improved processes and overproduction are reasonable explanations of the fall of prices only for articles of which the price has fallen below the average, and then only for such portion of the fall. If the average appreciation of the money basis, as ascertained by a long list of commodities, is thirty per cent., and we find that wheat has fallen fifty per cent., it is reasonable to con-

clude that thirty per cent. of this decline has been brought about by the appreciation of the money basis, and the remaining twenty per cent. by other causes. Among these other causes we might find an improvement in methods of production of this article over and above the average improvement in methods of production of all the articles considered, or we might find temporary overproduction. Continuous overproduction of such an article as wheat it is difficult to imagine.

Another fact commonly overlooked by those who explain the fall in prices by improved methods of production or transportation is the improvement in processes by which gold mining, when measured in labor, has itself been greatly cheapened. If there were abundance of gold for monetary needs, cheaper mining would make gold cheaper in terms of commodities. Otherwise stated, it follows that unless there was a scarcity of gold, improved processes in the production of commodities would be offset by the improved processes in the production of gold, and commodities would not be cheaper in terms of gold. The value of gold is fixed by the cost of production (including an

allowance for unsuccessful prospecting) plus a monopoly value. As the cost of production of gold has greatly decreased, the fall in prices can be explained only by an increase of the monopoly value of gold, which is another term for scarcity.

Industrial change is another commonly assigned cause for the depression. The introduction of a machine which takes away from the skilled artisan the special value of his training operates clearly as a hardship upon that particular individual and his fellows. In the same way the great changes that have taken place in distribution in the leading countries of the world—changes by which the small tradesman is set aside in favor of a great modern shop or co-operative society—undoubtedly bring with them disadvantages to this particular class. What is clear, however, is that neither of these things can cause a protracted depression in business. Anything which saves labor, whether it be an invention in the factory or better methods in retail distribution, can only result ultimately in a positive gain.

By a large class all the evils from which we have been suffering are laid at the door of the tariff. Half of them claim that the

tariff is too high, the other half that it is too low. In the discussion of this question there has been a great waste of time and temper. Whilst it has its influence for good or evil, that influence has been much exaggerated. A great and growing country like our own would be prosperous, and has been prosperous, under free trade and protection alike.

Beginning in 1833, we had the Clay-Calhoun compromise, running through a period of nine years, a reduction being made of about five per cent. a year in tariff rates, until, in 1842, we arrived at a uniform tariff of twenty per cent. After a short period of higher duties, reductions were again made and there was inaugurated what is generally termed our period of free trade—in reality one of moderate duties. This latter lasted from 1846 to 1861, and during it the country on the whole was equally as prosperous as during the previous period. It was during the period of decreasing duties and low duties that our iron industry received such a stimulus, but from causes quite independent of the tariff, namely, the substitution of anthracite for charcoal in the production of iron. What has undoubtedly operated as

an evil is the lack of continuity in tariff legislation. Under one administration we have a heavy duty placed upon such an article as tin-plate; under the following administration much of this duty is removed, and the millions of money that have been invested in the industry are imperilled. We are responsible as a whole people for the acts of our legislators, whether such acts have their origin in a party movement or in something wider. This is the only principle on which a liberal government can be conducted. We are accordingly responsible for the laws under which capital has been invited to embark in the protected industries, and we have no right to ruthlessly destroy these industries by sudden and radical changes in the law. This does not mean that we have not the right to change our minds with respect to tariff laws, as well as other laws, but it does mean that any such changes should be gradual.

By the gradual reduction of the tariff which took place under the Clay-Calhoun compromise, the protected industries suffered no injustice because they knew what to expect and were given sufficient time to accommodate themselves to the change. Such a

gradual reduction might even operate as a stimulus to invention, the manufacturer feeling the necessity of improving his machinery and methods in order to maintain his profits under a reduced tariff.

The assertion that our troubles are due to the return of our securities from abroad likewise calls for some attention. This would be a reasonable explanation if there were any lack of capital in the country, but no such lack of capital is apparent. When a country is young, capital from abroad serves an excellent purpose in furthering the development of the country's resources and industries. The time arrives, however, when it is important that the tendency to borrow abroad should no longer be encouraged. It may lead to the nation living beyond its means, as was the case with the Argentine. The latter country enjoyed a foreign credit which was too high for its own good. Luxuries were imported to excess, and the foreign debt increased until the country staggered and fell beneath the burden.

The shortage of gold in America in the last few years has been largely due to the amount we have been compelled to pay out each year to foreign creditors as interest.

So long as our prosperity was unquestioned, a large portion of this interest was reinvested each year in America. This is the only explanation of the small shipments of gold for a long period in the face of an unfavorable balance of trade on the part of a debtor nation. When more profitable fields for investment presented themselves in Australia, South Africa and South America, and in railroad building in India, Europe allowed this interest to come home, and the export of gold told upon our defective monetary system.

The return of the securities themselves, which has accentuated the situation for the moment, must eventually be of benefit to us at this advanced stage in our development.

The shrinkage in value, which caused the securities to come back, is explained partly by the same great question we are discussing and partly by the State and Federal legislation against our railroads.

The money question connects itself with railroad receiverships, immediately through the general business depression which cut down railroad traffic, and indirectly through the stimulus it gave to attacks upon the railroads. As the price of farm products

continued to fall, the farmer endeavored to get back part of his losses by having the Legislature of his State compel the railroads to reduce rates. The report of the railroad commissioners of Illinois for the year ending June 30, 1894, shows that during the year the railroads of the State earned $1,720,000 less than their fixed charges; within twelve months these same commissioners issued an order reducing freights. Together these causes have produced a crisis in railroad affairs, and not only have our own investors suffered grievously, but our sense of pride and honor has been wounded by Europe's losses here.

What is happening now, however, is that an important reduction is taking place in the foreign mortgage on our property. In future we will send abroad less of our wheat and gold in payment of interest, and more in exchange for the products of foreign labor. In other words, since our securities have been sent back to us, the other fellow will now be compelled to work for us if he wants us to work for him.

As to the connection of the attitude of the gold party and of the silver party with the present depression, it may be said that our

defective monetary system precipitated the crisis, and that the silver agitation has prevented an earlier return of prosperity; but neither of these have caused the depression. Many other explanations are offered for the present state of affairs, but they are hardly serious enough to be discussed. Local conditions were similarly advanced in explanation of the depression in the various European countries and of the crisis in Australia.

To sum up our position thus far, the depression from which we have been suffering is not of local origin, but has an international cause. That cause was the fall of international bimetallism in 1873, brought about by the action of Germany and the inability of France to continue the free coinage of silver. The constant appreciation of the money basis which subsequently occurred, manifesting itself in a continuous fall of prices, operated as a dead weight upon commerce throughout the world, and is the direct cause of our condition. There is no other explanation which wholly satisfies one. The hopeful feature is that the process of falling prices has come to an end, owing to the heavy production of gold within the last few years. England, Ger-

many and Australia, which suffered most severely a few years back, have already recovered. Prosperity must shortly return to us, and the fact that we are suffering from a depression at present will be no excuse in the eyes of the world if we do what is dishonest.

CHAPTER V.

THE MAINTENANCE OF A LEGAL RATIO.

The proposition that any one country, however important, can alone maintain the precious metals at a fixed ratio, it is a little difficult to treat seriously. The precious metals are citizens of no one country, but of the world. If local laws do not suit one or both of them they are quick to emigrate. An over-issue of paper money, which seems to constitute a particular insult to them by impairing their usefulness, will send them both abroad arm in arm. An undervaluation of one of them in terms of the other at once constitutes an offense to the sensitive nature of the one that is underrated, and he immediately seeks a foreign residence. No warrants of extradition in the shape of an issue of government bonds, or any other device, will avail. The recreants may be kidnapped and smuggled back for a time; but nothing can compel them to stay, unless it be under an autocratic government like

that of Russia, where they are thrown into a cell, without ceremony, and kept under lock and key.

In his "Dialogue of the Frogs" Aristophanes remarks that the bad citizens drive out the good citizens, as bad money drives out good money. Must we learn over again such a simple lesson in finance, which the Greeks and their frogs knew over two thousand years ago? And the shades of the petty potentates and the great sovereigns who have struggled with this question in Western Europe in the years that are gone! What an amused expression must have flitted across their countenances when the morning paper in the place where most of them are supposed to reside announced this plank of 16 to 1 in the Chicago platform! They reflected on the efforts they had made to prevent one or the other metal from leaving their dominion under the influence of only a fraction of one point in the ratio; of the useless edicts which followed each other in quick succession every few years through the middle ages and down to the beginning of the present century, and wondered whether man had lost all record of his past that he should be led to even contemplate

anything so rash. Although his birch may now and then sing a tune we do not fancy, the pedagogue, history, is a much more agreeable teacher than experience, and his fees are so much lighter. He beckons us now to sit but for a moment at his feet.

Gold, which had been used in conjunction with silver as a money basis in the ancient world, disappeared from the monetary field in the seventh century, and for a period of six hundred years Europe, with the exception of the Byzantine empire, and the dominion of the Moors in Spain, used only silver. Florence was the first power to reinstate gold as a money metal. The necessities of her valuable trade with the Orient, which had such a marvelous influence upon European life in the field of law and letters, led to the minting of a gold coin about the year 1252. It was through the Italian cities that all the rich traffic of the East awakened by the crusades found its way to the Hanseatic towns in Germany, and thence to Northern Europe. Florence and Venice at that time occupied the position as monetary centres, which the Netherlands assumed in the sixteenth century, and which London

enjoys to-day. The uniform weight and fineness of the Florentine coin caused it to spread through the extensive channels of her trade in Europe. Other countries presently imitated the coin, and gold took its place beside silver in the monetary systems. Both gold and silver were scarce, and really inadequate for the needs of a growing European commerce, and while the use of both metals served an important purpose in increasing the money basis, it could not prevent the advent of many perplexing money problems. Indeed, some of them are due directly to it.

Authority being weak and laws imperfect, there was less security in property than at present, and more hoarding of the precious metals in times of excitement Again, when the balance of trade happened to be against a country, both of the metals left it.

That which caused by far the greatest difficulty, however, was the different ratio at which the metals were coined in different countries. The bimetallism which Europe practiced from the beginning of the fourteenth century was not what we understand as international bimetallism, because, although the principal commercial countries

coined both metals at a fixed ratio, this ratio was not uniform for all of them. In 1519 there existed at the same time a ratio of 10.15 in the Netherlands, of 11.76 in France, and of 12.04 in Venice. In consequence there was a constant flow of the metals from one country to another, and constant fruitless attempts to stop it. In Florence the effects of this difference of ratio made themselves felt promptly after the adoption of the bimetallic system by other countries. Toward the middle of the fourteenth century, while the legal ratio in Florence was 13.60, France changed her ratio to 11.11. Florence thereupon lost her silver. This action on the part of France in reducing her ratio likewise attracted silver from England, where the ratio was 11.50, and King John amused himself by "drawing and quartering" the merchants who exported the metal, until after the lapse of several years it dawned upon him that it might be the ratio which was at fault.

In the meantime the French king was in such straits over the loss of gold, which was undervalued by his low ratio, that in 1372 he secured from the Pope a bull of excom-

munication against princes who might be guilty of certain acts which did not fit his currency views. Laws prohibiting the export of specie were quite common. In the enlightened reign of good Queen Bess eighteen English merchants were fined £140,000 for exporting gold. It is pointed out that France changed her legal ratio of the metals more than one hundred and fifty times in a single century.

On the whole, this interflow of the metals served an excellent purpose in lessening the fluctuation of values in any one country, but what emerges distinctly from all the tangled mass of confused and blind monetary legislation of medieval and later Europe is the fact that the slightest undervaluation of one of the metals under any system by which they were both used as a money basis led to an inevitable loss of that metal.

The growth of commerce and improvement in communication are marked by a gradual lessening of the difference in the ratio of the metals in the various countries until the system approaches, and in our own century actually becomes, international bimetallism. Even then, inasmuch as there

existed several important countries which did not form a part of the system, there was still a sufficient difference in the ratio of the metals to cause vast movements of specie. It has been already pointed out that our country, by undervaluing gold, lost its stock of that metal between 1792 and 1834. The ratio adopted in the latter year in turn undervalued silver, and not only were there no silver dollars in circulation, but we found it necessary in 1853 to debase our subsidiary coin—half dollars, quarters and dimes—in order to prevent their exportation in exchange for gold. This occurred while the difference between the legal ratio in the United States and the market ratio as fixed by the practice of continental Europe was only one-half a point. France having established a legal ratio which conformed exactly to the market ratio at the start, and practicing bimetallism in conjunction with the Latin countries, succeeded in keeping the market ratio of the metals close to her legal ratio from 1803 to 1873. The difference of a small fraction of one point, however, between the legal ratio and the market ratio which still continued, while not forcing her to abandon

her system, did cause a complete change in her circulation, which consisted successively of nearly all silver and then of nearly all gold. In 1838 she had left only 200,000,000 francs of gold, as against 3,800,000,000 francs of silver. Gold disappeared so entirely from circulation through a period of years that when it reappeared the people (not only the ignorant, but, according to the report of the Chamber of Commerce of Tours, even intelligent people) were loth to accept it; they were afraid of losing such a small coin, and were afraid of counterfeits. From 1830 to 1851, inclusive, the net importations of silver were about 2,296,000,000 francs. There is, likewise, a small excess of gold imports over exports for this period amounting to 73,000,000 francs. This is explained by the favorable balance of trade, and by the fact that France was already a creditor country. The complete disappearance of gold from circulation in the early part of this period must be explained by the melting down of coins for use in the arts—always an important factor in French monetary history—by hoarding, and by the movements of the metal between 1825 and 1829, inclusive, for which years we have no record.

With the discovery of gold in the fifties the market ratio fell below 15½ to 1, and silver, being then undervalued by the French law by a small fraction, began to disappear from France, and gold took its place. The outflow of silver began in 1852, and continued until 1864, inclusive. During this period the net imports of gold amounted to 3,377,000,000 francs, and the exports of silver to 1,726,000,000 francs. In 1865 the ratio rose above 15½ to 1, and from that year to 1870, inclusive, there were simultaneous imports of both gold and silver, amounting to 1,630,000,000 francs of gold and 562,000,000 francs of silver. In 1871 gold began to leave, the exports for 1871 to 1873 amounting to 375,000,000 francs, and silver imports to 298,000,000 francs. During all this period, as already stated, the market ratio of the metals never fluctuated the whole of one point above or below the legal ratio, and yet we have in France such vast and significant movements of the money metals. Taking them together, France shows a steady and large increase in her supply. She could only accomplish this by paying for them in services and goods. In other words, France has become a great creditor

nation, and it is this fact which keeps her out of trouble under her present illogical monetary system. She is constantly supplied with gold by the interest payments coming home and by the presence of so many visitors within her borders.

France performed an excellent service for the world in taking care of the surplus gold production of the fifties. The amount which she absorbed kept up the price of gold, and the silver with which she supplied the outside world kept down the price of silver. She was enabled to do this by the fact that her legal ratio was close to the market ratio to begin with, and that she was backed up in the use of both metals indiscriminately by other countries. The important movements of her money metals demonstrates plainly that the slightest difference in ratio means a substitution of the overvalued for the undervalued metal in the circulation of a country. Had France not been sustained by the Latin countries, or had the legal ratio of these countries differed materially from the market ratio in the beginning, the process would have ended in disaster to their monetary system.

What Would Happen Here.

It is asserted that if the United States proclaimed the acceptance of sixteen ounces of silver for one of gold, silver would be given a fixed value in terms of gold. This would be true, provided the country stood ready to pay out gold for all the silver the world might present, and be it remembered that there are many countries which have experienced the inconvenience of a money basis which fluctuates in terms of the basis of the leading commercial countries, and which have accordingly been struggling to establish themselves on a gold basis. They would be only too glad to sell us their stock of silver at a reasonable price, and would fall over each other in offering it at double its market price. What would actually happen, however, is that long before any such law could be placed upon the statute books, the mere shadow of its resting upon the United States treasury would cause every ounce of gold in that institution to seek more congenial quarters. The banks would no longer come to the support of the treasury were the enactment of such a law imminent. A sense of self-preservation, leading them to increase their stocks of gold,

would cause them rather to assist in the depletion of the treasury gold.

Having no gold with which to redeem our silver, our offer to the world would then be meaningless. Silver, whilst enjoying a temporary advance, could not but fall shortly afterwards to its present level. It was promised that our purchases of silver under the Bland and Sherman laws would bring about a sharp advance in silver. So they did, but what happened later?

So long as there is no express declaration of policy or legislation favoring the redemption of our money in silver, the inability of the treasury to pay out gold would simply bring about a regime of forced circulation, under which the value of the dollar would depend upon the world's confidence in our intention or ability to resume gold payments. The moment that such a declaration in favor of silver is made, our dollar must fall to the value of the silver it contains.

CHAPTER VI.

WOULD THE CHANGE TO A SILVER BASIS BE EXPEDIENT?

If we cannot maintain a legal ratio of the metals unaided, and if the price of silver cannot be permanently raised by us, it follows that the proposed free coinage of silver at the ratio of 16 to 1 would cut our dollar in half when measured in gold.

Postponing the graver question of the justice of such a step let us consider whether the change would be expedient.

Certain classes would derive an advantage from a depreciation of the currency, but as such advantage would in every case be secured by despoiling the creditor or laborer, it can hardly be discussed under the head of expediency.

For its foreign commence it is best that the money of a country should have a fixed value in the principal countries with which it trades. Over four-fifths of our trade is with gold countries. Money is part of the

language of business, and if its meaning is constantly changing no man can be certain of his contracts. Commerce in the long run flourishes most when risks are the smallest, and this applies to internal commerce as well as to foreign commerce. A money that fluctuates in terms of gold makes prices unsteady within the country, because the price of many articles is fixed in the world's market and in terms of gold. The element of uncertainty thus introduced tends to demoralize business and invite speculation, which means profits to the few, disaster to the many and hardships for those who must by their steady plodding supply the means to speculate.

Again, a change to the silver basis would increase the burden of our gold debts. For the fiscal year 1892-93 India's payments to England on account of her gold obligations amounted to £16,500,000, costing India 264,000,000 rupees. If the rupee had retained the gold value which it had in 1872-73, this remittance would have cost her only 177,000,000 rupees. In other words, the fall of the rupee with the fall of silver increased her foreign remittances by 87,000,000 rupees. She hesitates to levy additional taxes to

meet the deficit for fear of discontent among the natives, and India is accordingly confronted with a serious problem. Mexico and other silver countries have suffered in a like manner.

The bonds of most of our railroads being gold bonds, this sudden addition to the weight the railroads are already carrying must crush many of them to the earth. Their rates, as a rule, are limited by law, and it would be most difficult to secure from the state legislatures the permission to increase them.

In the leading countries of Europe the capital stock, as well as the bonds of a railroad must represent actual value paid in. In France the government retains the right to regulate charges, but protects the investor by guaranteeing the interest on his investment. If the government enforced a reduction of charges which made the operation of the road unprofitable, it would be compelled to make good the deficit. Toward the middle of the coming century most of the French railways will become the property of the government without compensation.

Here we have a logical system which

looks to a great future advantage, and recognizes a duty whilst asserting a right. What has happened here? It was the laxity of the law which made possible the exploitation of the security holder by the railroad organizer, and it is legislative action which is punishing the security holder for these very misdeeds of the organizer. What is now proposed is that the law step in a third time, through the avenue of a debased currency, and smash what is left of him.

In 1894 our total railway securities held by the public amount to $7,833,000,000. Of the stock 63 per cent. paid on dividends, and no interest was paid on 17 per cent. of the funded debt.

The fact that railroad rates are fixed by law will likewise make it difficult for the railroads to raise the wages of their employes, whose cost of living will be so seriously increased. For 1894 the number of such employes was 779,608. This was 93,000 less than during the previous year, and further reverses for the railways must mean further hardships for the employes.

Another important objection to a debased currency is that should the government desire to build a warship, the state a school-

house or the city a bridge, they must pay more for them if our dollar is reduced, and federal, state, and city taxes must accordingly be increased.

We have seen that a silver basis would be a detriment in foreign commerce, would unsettle values and thereby interfere with internal commerce, would increase taxation and would injure the railways by adding to the burden of their gold debt.

Unless steadied by international agreement, silver must fluctuate constantly in terms of gold, because without such an agreement it remains a commodity.

If now prices adjusted themselves to a silver basis and later on silver should continue to rise through a period of years, most serious consequences would follow. We would then experience within the country all the evils of falling prices from which the world has just suffered so severely. Any benefit derived from an increase in the value of our stock of silver would be insignificant compared with the damage to industry which constantly falling prices would cause. Commerce would be discouraged, and debts contracted whilst silver was low would weigh more heavily

upon the debtor as silver advanced. We might then experience a new movement for repudiation by means of paper money.

It is difficult to see how the proposed step could help the cause of international bimetallism. The inevitable failure of our attempt to maintain the ratio unaided, together with the evils that must follow, would rather tend to make men impatient of the mention of bimetallism.

Again, unless some silver country took the opportunity to raid our gold in order to establish itself on a gold basis, the amount of gold released by us and naturally flowing to gold-using countries would further ease the situation in such countries, and make it less of an object to them to support the cause of international bimetallism.

CHAPTER VII.

CAN THE MOVEMENT BE OTHERWISE JUSTIFIED?

It is urged that as the money basis has appreciated, we are simply correcting a past injustice by debasing the currency. The full and definite answer to this is that the appreciation of the money basis has been gradual through a quarter of a century, and the repudiation will be abrupt.

With the exception of the debtor who has been compelled to renew his debts through all this period at the same rate of interest, the world has gradually accommodated itself to the appreciation of money. In other words, the majority of debts existing at a given time have been recently contracted.

How would the change affect labor? It has been pointed out that labor does not advance to a corresponding extent with the advance in the price of commodities. The explanation of this is twofold. The price

of staples, such as wheat, is fixed in the world's markets, and the price of labor is fixed in the home market.

Prices of commodities are quick to reflect changes in supply and demand, and wages are slow to do so, being fixed by complicated considerations, among which tradition is an important element. A certain price has been established for certain work, and it remains the basis of wages in that field.

It would require a long and weary struggle, accompanied by serious social manifestations, before wages could be advanced to a degree corresponding with the advance in the price of the laborer's bread. The laborer will, accordingly, be compelled to retrench, and this is not desirable, not only because of the hardships and painful denial of necessities it involves to the laborer himself, but because a high standard of living conduces to the general good and means progress, whilst a lowered standard means retrogression.

The reason the money basis has not appreciated when measured in wages is that labor has shared with capital the benefits derived from improved machinery. That it has not shared them to a fuller extent is

due less to any attitude of the employer than to the fact that wages are kept down by competition amongst the laborers themselves. The man who is out of work offers his services low. The employer who accepts his offer has an advantage which tends to compel other employers to procure their labor just as low.

If now we cut our dollar in half, we rob labor of the advance it has secured, and force it to begin over again the tedious struggle against hostile economic conditions.

It may be urged that the laborer's vote is such that if he suffers it will be in consequence of his own act or neglect to act, and that he will, therefore, deserve little sympathy. This is not the view which modern society takes of such questions. If we see our children in danger, no acts of wilfulness on their part can stay us from trying to save them.

Attention has likewise been called to the effects of a debased currency upon those who enjoy a small fixed income, or have laid by anything in the bank. If they are old or invalid and have no means of earning a livelihood, it will fall upon them with a

heavy hand. So long as the dollar remains depreciated, time, which will correct the laborer's grievances, will not mend theirs.

Added to this is the consideration that the government under such a system would repudiate a large part of its own debt, as government bonds would then be paid in silver.

To fail to protect property weakens the springs of social progress by taking away from men an incentive to labor. It discourages the industrious, the frugal and the thrifty, who create social capital. Without capital the people would not have the houses they live in, the implements they use, nor the stock of food which spares them from searching the forest anew each day for enough to sustain them. Every addition to social capital lightens social labor, and every impediment to its accumulation, or thoughtless destruction of what exists, makes the burden of that labor heavier.

These few but important considerations force us to the conclusion that the proposed step is not just and is not honest. Justice is the increasing purpose of government, and the very foundation of democratic government. To hold the scales even that

none suffer an injustice has been the central idea of the political liberty which the English race has struggled so long to develop. Yet there is one thing still more important, and that is honor, involving the questions of honesty and character.

Temporary injustice may arise through passion or ignorance, but a slip in the direction of honor indicates a moral defect, which touches the health of the whole body politic. It is a question which needs no discussion, because on that subject men made up their minds long ago—so long ago that constant practice has turned it into instinct. In man's growth nothing is more wonderful than the development of this thing called character. And what a lapse of time and ceaseless workings in sunshine and in cloud, and under the still stars when the mind of man was yet darker than the night, were required to produce it! Once produced, how jealously the plant must be watched and trained anew in the breasts of each generation. No matter what the natural endowments or acquired faculties of men may be, if character is lacking everything may become chaos. It is that around which everything revolves. To im-

pair character by public acts is a blow to the citizen, to the state, and to society.

A powerful factor making for honesty is an honest past, and this is true of the state as well as of the individual.

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